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SUBJECT: LATEST SALVO IN OLIGARCH FRIDMAN'S DISPUTE WITH
TELENOR

REF: 07 MOSCOW 2206

Classified By: Economic Minister Counselor Eric T. Schultz, Reasons 1.4
(b,d).

11. (C) SUMMARY: A \$2.8 billion judgment against Norwegian telecom company Telenor in a Khantiy Mansiisk court is the latest salvo from oligarch Mikhail Fridman in his years-long battle with Telenor for control of VimpelCom, Russia's second biggest mobile phone provider. Given the dubious nature of the court judgment, Telenor is confident it will see the billion-dollar judgment overturned on appeal. Despite conflict with Fridman, Telenor wants to remain a player in the profitable Russian and Ukrainian telecoms markets, and insists, notwithstanding recent press reports, that there are no serious discussions about selling Telenor's stake in VimpelCom to Fridman. The judgment against Telenor is another blow to Russia's battered investment climate and to the long-term development of Russia's telecommunications industry. END SUMMARY.

A Lawsuit in a Remote Court

12. (C) On August 16, a Siberian court in Khantiy Mansiisk ordered Norwegian telecom company Telenor to pay \$2.8 billion in damages to VimpelCom, Russia's second largest mobile phone company, for having opposed and delayed VimpelCom's purchase of Ukrainian Radio Systems (URS), Ukraine's fourth largest telecom firm. Telenor owns 29.9 percent of VimpelCom's voting stock, making it the second largest shareholder. VimpelCom's largest shareholder is Altimio, which owns over 45 percent of VimpelCom's stock. Altimio is a telecom investment vehicle owned by Russian oligarch Mikhail Fridman through his Alfa Group holding company.

13. (SBU) In the lawsuit, Farimex claimed that Telenor and certain other shareholders' opposition to the URS acquisition had inflicted \$5.7 billion in losses on VimpelCom. In Farimex's view, had the URS purchase not been put off from 2005 to 2006, URS would have become a successful company with a greater share of the Ukrainian telecoms market, instead of a loss-making asset on VimpelCom's books. Farimex also accused Altimio and other companies of damaging VimpelCom, but the judge dismissed the case against all of the other defendants.

14. (C) Natalia Schneider, Corporate Affairs Director for Telenor's Russian operations, told us that Fridman had orchestrated the Khantiy Mansiisk lawsuit against Telenor as

the latest salvo in his years-long feud with Telenor over control of Russian and Ukrainian telecom assets. Farimex Products, a British Virgin Islands company owned by a cousin of Fridman's, and which owns only 0.002 percent of VimpelCom's outstanding shares, brought the lawsuit. Schneider said Telenor had unsuccessfully argued that the case should be dismissed because of Farimex's ties to Fridman. She noted in that regard that Farimex had introduced evidence of internal VimpelCom board deliberations about the URS acquisition to which only Fridman and Telenor were privy.

15. (C) Schneider, who is also the head of the IT and Telecom Committee of the Association of European Businesses in Russia, said that Telenor had explained to the court that it had opposed the URS acquisition during VimpelCom board discussions in 2005 and 2006 because it didn't make good business sense. URS was a small player in Ukraine's mobile telecoms market, and had never been a genuine competitor with larger companies, including market leader Kyivstar, in which both Telenor and Fridman were also the largest shareholders. Despite Telenor's initial opposition to the URS acquisition, VimpelCom had ultimately voted to buy URS for \$230 million. URS had proved to be a bad investment and still had never turned a profit. Schneider said that Fridman blamed Telenor for delaying the URS acquisition and effectively turning the investment into a loss, and noted that Fridman had also sued Telenor for damages in Switzerland.

16. (C) Scheider said Telenor had also unsuccessfully disputed the court's jurisdiction. Khantiy Mansiisk was apparently chosen as a venue for the suit, because Fridman's cousin

owned another business there and had influence with the courts. Otherwise, there was no business connection to VimpelCom and no other nexus providing Khantiy Mansiisk with jurisdiction to hear the case. Finally, Telenor had argued that although Russian law grants certain minority shareholders the right to sue major shareholders over board decisions that allegedly cause financial damage to a corporation, Farimex did not own the minimum one percent of outstanding shares to be able to bring such a suit.

17. (C) In Schneider's view, the Khantiy Mansiisk judge ignored the many substantive and procedural irregularities in the case, and decided to award \$2.8 billion in damages, half of the amount claimed by Farimex. Given the many flaws in the Khantiy Mansiisk case, Telenor was confident it would ultimately prevail on appeal through the Russian court system and succeed in having the billion-dollar judgment overturned. However, Telenor had also brought a second suit in New York to enjoin the Khantiy Mansiisk litigation, because the shareholder agreement between Telenor and Fridman contained a choice-of-venue clause requiring all lawsuits to be brought in either Switzerland or New York.

Latest Tactical Move From Oligarch Fridman

18. (C) Roger Martinsen, the Norwegian Embassy's Commercial Counselor, told us it was a common tactic of Fridman and the Alfa Group to apply pressure to foreign investment partners by bringing suits in obscure Russian courts that can easily be controlled. Although Fridman often succeeded in winning cases at the trial court level in Russia, he frequently lost on appeal or in foreign courts. In the Swiss litigation, for instance, he said Fridman had never succeeded in convincing any court that his claims against Telenor had merit.

19. (C) Martinsen said in his view, Fridman's sharp business tactics, for example in the TNK-BP incident, were increasingly well known to investors. Fridman's long-running dispute with Telenor had also been well-publicized over the last three years. He speculated that the case would not likely have an impact on the Russian operations of Norway's StatoilHydro, which remained a minority partner in the development of Russia's Shtokmann gas field.

¶10. (C) Martinsen said the pace of Norwegian companies' investments in Russia had been increasing. Aside from oil and gas, Norwegian companies were also active investors in printing and publishing, hotels, shipping, confections, agricultural equipment, concrete, and salmon and other fish products. Still, he acknowledged that recent incidents like TNK-BP, Mechel, the Georgian conflict and now the Telenor judgment, could slow investment growth and potentially turn away Norwegian companies that were considering investing in Russia for the first time.

Telenor Invested for the Long Term

¶11. (C) Despite the legal dispute with Fridman, both Telenor and the Norwegian Embassy (Telenor is majority-owned by the Norwegian Government) confirmed that Telenor would like to continue as a major shareholder in VimpelCom. Schneider noted that Telenor's investments in both VimpelCom and Kyivstar had been highly profitable. They denied recent press reports that Telenor was ready to wash its hands of the Russian telecom market. Schneider noted that the Khantiy Mansiisk case could be an attempt by Fridman to extract a cheaper buyout price from Telenor for its VimpelCom shares. Thus far, however, there had been no serious discussions with Fridman about a VimpelCom buy-out or a possible swap of Fridman's shares in Kyivstar for Telenor's VimpelCom shares.

COMMENT

¶12. (C) The Telenor case is another blow to sagging investor confidence in Russia, albeit a small one compared to the war in Georgia. As one contact recently put it, a year ago the Telenor case would have been front-page news; now it barely

caused a ripple. The consequences for Russia's telecoms industry, however, are significant. Despite fast growth and record profits, Telenor is the only large-scale foreign investor in an industry that with an infusion of western technology could serve as a driver in the development of a Russian high-tech and innovation economy. Oligarchic and Kremlin insider control of all three of Russia's major service providers has been the main impediment to foreign investment. In addition to VimpelCom, Fridman is a major player in Megafon along with Kremlin Information Society and Innovation Adviser and former Telecommunications Minister Leonid Reyman (Reftel). Russian conglomerate Sistema, owned by oligarch Vladimir Yevtushenkov, owns the majority of shares in the third large firm, MTS. Telenor's continuing difficulties are likely to further depress foreign investor interest in Russian telecoms.

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